

**FINANCIAL DECISIONS AND ASSET BUILDING AMONG RURAL FARM HOUSEHOLDS IN
NIGERIA: AN EMPIRICAL ANALYSIS**

A Research Proposal

Submitted To:

**NBER Household Finance Working Group
Call for Research Proposals 2013**

Submitted By:

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Introduction

The financial decisions that households make are most times determined by a number of factors ranging from household composition, their economic situation (financial stress, security and need), location, available opportunities to the prevailing socio-political environment (Croson and Uri, 2009; Van Nieuwerburgh and Veldkamp, 2010) to mention just a few. In fact, in a country like Nigeria, decisions about what to buy and use the resources available to the households for depend largely on who the main decision-maker is and the amount of these resources that he or she can control.

However, asset or wealth building by household depends on three main decisions - savings, borrowing, and investment undertaken. While, savings are typically described as a means to maximize lifetime utility (Donkers and Soest, 1999; Love et al, 2008), investment decisions play a critical role in building asset. Investors' portfolio allocations are based on investors' risk preferences, given the available investment opportunities, and the risk-return trade off (Grossman and Stiglitz, 1980). Meanwhile, economic and finance theories predict that rational households make optimal financial decisions regarding the kind of investment to make, savings and debt management plan to embrace (Calvet et al, 2009b; Sharpe, 2006).

Despite the widespread importance of household finance, existing studies in Nigeria focused on urban areas with emphasis on borrowing (Rahji, 2010), expenditure, demand and wellbeing (Ibrahim and Umar, 2008) thereby neglecting the impact of household financial decisions and management on asset building especially among rural farm households. Thus, studies in this area have dwelt mainly on optimal composition of the financial investments of urban households, the efficiency of their portfolios, and the role of diversification (Campbell, 2006) in household finance.

In Nigeria for instance, rural farm households produce the bulk of the food consumed in the country and most of these farmers are asset poor, lacking accessibility to basic infrastructural facilities. Again, a sizeable proportion of these farmers are risk averse specializing in low risk-low return activities (Collier and Gunning, 1999) since there are no social protection mechanisms (safety nets) to cushion the effect of any negative shock faced by them. Thus, decisions on how to manage the meager resources available to these farmers in terms of which of the various investment portfolio opportunities available to harness are important for survival and sustainability of their production cycles. This and many more underscores the need for the study.

Statement of the Problem

There is no more gainsaying the fact that research on household financial wellbeing and satisfaction has been increasing. This is attributable to the rising poverty situations and other socioeconomic deprivations facing households especially in the developing countries across the globe. Meanwhile, decisions that household make about asset building to a very large extent affect their financial security status. This is because assets play an important role for low-income households in reducing their likelihood of experiencing financial hardship (McKernan, Ratcliffe, and Vinopal, 2009). Assets are also important for economic mobility by providing families with the means necessary to purchase future investments, such as a home or an education, which contribute to long-term financial stability (Cramer et al, 2010).

Therefore, being able to withstand financial hardship is of particular importance for low-income households, who have the highest likelihood of experiencing income declines due to disruptions in employment such as reduced hours and seasonal work (in the case of farm households) and layoffs (Acs et al, 2009). Economic constraints are thus very real and probably go a long way towards explaining low saving rates and limited asset accumulation in low-income households. The optimal decision for some very low-income households may be not to save, because saving would require harmful reductions in consumption. Thus, programs and policies that increase incomes and provide important supports are critical for the economic well-being of households. Both income generation and asset building are essential in the economic lives of everyone, rich and poor alike (Sherraden, 1991).

Household financial decisions connotes "who makes" and "who implements" a series of money management tasks in a given household. Financial management in the household therefore involves the household allocative system, for example: who has the final say in major financial decisions, who pays for household expenses and who handles everyday household chores?

From the foregoing, this study intends to provide answers to the following questions which are considered important to understanding the influence of household financial decisions on asset building among rural farm households in the study area.

1. What are the socioeconomic characteristics of rural farm households in Nigeria?
2. What are the different investment portfolios available and accessible to these households?
3. Do households' socioeconomic characteristics impact on their asset building and/or choice of investment portfolios?
4. Are there gender disparities in financial decisions on asset building among these households?
5. What are the enablers and inhibitors of financial decisions on asset building and/or portfolio choice among rural farm households in Nigeria?

Therefore, this study aims at addressing this gap by investigating the dynamics of household financial decisions and the implications of these dynamics on asset building among rural farm households in Nigeria.

Objectives of the Study

The main objective of the study is to examine gender differences in financial decisions and wealth building among rural farm households in Nigeria.

The specific objectives are to:

1. Identify the socioeconomic characteristics of rural farm households in Nigeria.
2. Profile and categorise the different investment portfolios available and accessible to rural farm households in the study area.
3. Examine the relationship between households' socioeconomic characteristics and investment portfolio choice or decision(s).
4. Access gender differences in the choice of investment portfolios among the rural farm households.
5. Determine and ascertain enablers and inhibitors of major financial decisions on asset building in the study area.

Methodology

Study Area

The study will be carried out in Nigeria. Nigeria is divided into 36 states and the Federal Capital Territory (FCT), Abuja. The country is composed of six geopolitical regions – North-central, North-east, North-west, South-east, South-south and South-west. Nigeria is the most populous country in sub-Saharan Africa with a population of over 160 million people. The country is situated in the tropics with agriculture providing employment for over 65 percent of her population.

Data Sources and Sampling Method

Data for the study will be collected through the use of structured questionnaire and focus group discussions. While the questionnaire will be administered on a representative sample of about 600 households, the focused group discussion will be conducted on about 400 respondents divided into groups based on defined and definite characteristics. Meanwhile, a multistage random sampling method will be employed in selecting respondents for the study. The first stage of the sampling will be selection of six states in Nigeria with at least one state from each of the six geopolitical zones of the country. The second stage will be selection of one Local Government Area (LGA) from each of the three Senatorial Districts in the selected states. While the third stage will be selection of two rural areas from the selected LGAs, the fourth and final stage will be a random selection of households/respondents based on probability proportionate to size.

Methods of Data Analysis

A number of analytical tools will be employed in analysing the data to be collected for this study. These tools include – Descriptive statistics, Likert scale, Discriminant analysis and Regression model.

Descriptive statistics: - This will be used to analyse, describe and discuss respondents'/households' socioeconomic characteristics, profile and categorise available and accessible investment portfolios in the study area – **Objectives 1 & 2.**

Likert scale: - This will be employed to rank respondents'/households' financial decisions regarding minor and major investment portfolios – **Objective 3.**

Discriminant analysis: - Data obtained from the focus group discussions will be subjected to statistical analysis using Discriminant analysis to determine whether there are gender disparity in portfolio choices between men and women – **Objective 4.**

Regression model: - This will be employed to access and ascertain enablers and inhibitors of financial decisions on asset building among the rural farm households – **Objective 5.**

Expected Outcomes and Dissemination Method

It is expected that the outcomes of this study will provide information and estimates that will enhance effective implementation of policies and programmes aimed at enhancing the financial independence of rural farm households in Nigeria especially in the face of emerging threat posed by climate change and other environmental shocks. This will help proffer workable solutions to the problem of hunger, under-nutrition and food poverty arising from rural-urban drifts of able-bodied men and women. Results of the findings will be disseminated through presentations in seminars, conferences and workshops. Findings will also be published in reputable Journals in consultation with the NBER Working Group.

Research Budget

1) Questionnaire Preparation, Pretesting and Literature Search:	
a) Preparation of Questionnaire (1000 copies) - Typing, printing and photocopying	\$1000
b) Pre-testing of questionnaire - Principal investigator and one research assistant	\$1500
c) Desk research – Literature review (Remuneration for 2 Research assistants @ \$300 per person/month for two months)	\$1200
2) Travel, Lodging and Accommodation for Field Officers:	
d) Transportation of 6 field officers to the study locations (6 geopolitical regions) Intra-state transportation by cars and intra-local government transportation (consisting of one LGA and two rural areas per LGA selected where data will be collected. A total of \$1200 per Field Officer is budgeted for two months)	\$7200
3) Other Expenses:	
e) Data Coding, Input and Analysis	\$1750
f) Supplies and Materials (Stationeries, Stapler, Binding sheets, Photocopying Sheets, CDs and other consumables)	\$1000
g) Preparation of Draft/Interim Report – Typing, editing and proof-reading	\$1150
h) Revision of Draft Report and Incorporation of useful suggestions	\$1000
i) Correspondence and Telecommunications (Postage, internet surfing phone calls and Phone re-charge)	\$700
TOTAL BUDGET	\$16500

Project Work Plan

Proposed Project Time Table

Activity	Time schedule
Questionnaire preparation	March 2013
Literature review	April – mid May 2013
Data collection	mid May – mid July, 2013
Data analysis/mid-term Report	mid July - August, 2013
Submission of revised mid-term Report	September 2013
Submission of Final Report	October- November 2013
Submission of revised Final Report	December 2013

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- Van Nieuwerburgh, Stijn and Laura L. Veldkamp (2010) Information Acquisition and Under- Diversification, *Review of Economic Studies*, 77(2): 779-805.

CURRICULUM VITAE

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EDUCATION AND EMPLOYMENT

30 Sept. 2010 to Date **Lecturer I**, Department of Agricultural Economics, University of Ibadan, Ibadan, Nigeria

Oct. 2007 to 29 Sept. 2010 **Lecturer I**, Department of Agricultural Economics and Extension Services, University of Ado-Ekiti, Nigeria

Oct. 2004- Sept. 2007 **Lecturer II**, Department of Agricultural Economics and Extension Services, University of Ado-Ekiti, Nigeria

May 2001-Sept. 2004 **Assistant Lecturer**, Department of Agricultural Economics and Extension Services, University of Ado-Ekiti, Nigeria

March 2002-June 2007 **PhD in Agricultural Economics**, University of Ibadan. Thesis Title: “Determinants of Vulnerability to Poverty among Rural Households in Ekiti State, Nigeria”.

1999-2000 **MSc Agricultural Economics**, University of Ibadan, Nigeria. Dissertation Title: “The Effect of Poverty on Children’s Upbringing in Ibadan, Oyo State, Nigeria: A Case Study of Abadina Community.

1992-1998 **BSc Agricultural Economics** (Second Class Upper Division) University of Ibadan, Nigeria. Project Title: “Analysis of Costs and Returns on Egg Production in Poultry Enterprises in Ibadan, Oyo State, Nigeria.

1989-1990 **GCE Advanced Level**, Federal School of Arts and Science, Ondo, Ondo State, Nigeria.

1983-1988 **WASC Ordinary Level**, Ogotun High School, Ogotun-Ekiti, Ekiti State, Nigeria

APPOINTMENTS AND DISTINCTIONS

November 2012 **Grantee**, Time Use Training Grant to participate in a training on Time Use Data Collection and Analysis at the National Academy of Statistical Administration (NASA), Greater Noida, India between 5-9 November, 2012

Sept. 2011 to date	Research Grantee , African Economic Research Consortium (AERC), Nairobi Kenya to conduct a research project titled ' <i>Has Economic Growth in Nigeria been Pro-poor? A Synthesis of Analysis from Different Cross-sectional Data</i> '.
2010 Award Cycle	Research Grantee , Institute for Money, Technology and Financial Inclusion (IMTFI), University of California, Irvine, USA to Conduct a Research Titled ' <i>Small Ruminants as a Source of Financial Security: A Case Study of Rural Women in Southwest Nigeria</i> '.
April 2007- July, 2008	Ag.HOD/Coordinator- Department of Agricultural Economics and Extension Services, University of Ado-Ekiti, Ekiti State, Nigeria.
April 2007 to Sept. 2010	Internal Examiner to the Department of Economics, Faculty of Social Sciences, University of Ado-Ekiti, Nigeria
2006-2007	Research Fellow & Grantee , Mala Kachalla Research Fellowship in General Agriculture, Centre for Research and Development, The Federal University of Technology, Akure, Ondo State, Nigeria.

PUBLICATIONS

1. **Oluwatayo, I. B. (2012)** Mobile Phones as Mobile Banks and Credit Outlets: The Experience of Farming Households in Rural Southwest Nigeria. *International Journal of Computing and ICT Research*, 6(1): 52-59.
2. Oluwatayo, I. B. and T. B. Oluwatayo (2012) Small Ruminants as a Source of Financial Security: A case Study of Women in Rural Southwest Nigeria. *IMTFI Working Paper Series*, 2012, 27pp.
3. **Oluwatayo, I. B. (2011)** Climate Change and Adaptive Capacity of Women to Water Stress in Urban Centers of Nigeria: Emerging Concerns and Reactions. *In K. Otto-Zimmermann (eds.) Resilient Cities: Cities and Adaptation to Climate Change Proceedings of the Global Forum 2010, Local Sustainability. Volume 1, Part 2, 69-78*, DOI: 10.1007/978-94-007-0785-6_7.
4. **Oluwatayo, I. B. (2010)** Microcredit and Household Poverty Status in Rural Nigeria: Experience from Selected Agencies in Ekiti State. *International Journal of Business and Emerging Markets*, 2(1):77-90.
5. T. T. Awoyemi, **I. B. Oluwatayo** and K. O. Adewusi (2009) Inequality, Polarisation and Poverty in Nigeria, *Poverty and Economic Policy Working Paper (PMMA 10832), Poverty and Economic Policy (PEP) Research Network*, Canada.
6. Adesoji, S. A. and **I. B. Oluwatayo** (2009) Assessment of Involvement of Women in Household Food Security in Ekiti State, Nigeria. *FAMAN Journal*, 10 (2): 1-7.
7. **Oluwatayo, I. B. (2008)** Explaining Inequality and Welfare Status of Households in Rural Nigeria: Evidence from Ekiti State. *Humanity and Social Sciences Journal*, 3 (1): 70-80, 2008.
8. **Oluwatayo, I. B.**, G. M. Adebo and B. O. Abere (2008) Single Parenting and Children's Welfare in Rural Nigeria. *Nigerian Journal of Rural Sociology*. (8) 1: 108-117.
9. **Oluwatayo, I. B.**, Sekumade A. B. and S. A. Adesoji (2008). Resource Use Efficiency of Maize Farmers in Rural Nigeria: Evidence from Ekiti State. *World Journal of Agricultural Sciences*, 4(1) 91-99.

10. **Oluwatayo, I. B.** and S. O. Awoniyi (2008) Investigating the Prevalence, Nature and Effects of Child Labour on Schooling among Children in Oyo State, Nigeria, *Asian-African Journal of Economics and Econometrics*, 8 (1) 1-13.
11. **Oluwatayo, I. B.** (2007) Schooling Participation among Children in Nigeria: Evidence from Ekiti State, *Review of Economic Sciences*, No. 11, pp 49-70.
12. **Oluwatayo, I. B.** and Aliyu. A. Ahmed (2007) Gender Differentials in Information Communication Technologies (ICTs) Usage in Rural Nigeria: Case of Atisbo Local Government Area of Oyo State. *Nigerian Journal of Rural Sociology*, Vol. 7, No. 1 & 2, pp 57-69.

International/Local Conferences and Workshops Attended within the Past Two Years:

- ✚ International *Training Workshop on Time Use Data Collection and Analysis* Organised by the International Association of Time Use Research (IATUR), Australia between 5-9 November, 2012 at the National Academy of Statistical Administration (NASA), Greater Noida, New Delhi India.
- ✚ International **Biennial Workshop** Organised by the African Economic Research Consortium (**AERC**), between 2-9 June, 2012 at Mount Meru Hotel, Arusha, Tanzania.
- ✚ International Research Workshop organised by the Institute for Money, Technology and Financial Inclusion (IMTFI), University of California, Irvine, USA for IMTFI Researchers held between 6-8 December, 2011 at the Student Centre, School of Social Sciences, University of California, Irvine, USA.
- ✚ Fourth European Conference on African Studies (ECAS 4) **on African Engagements: On Who's Terms Organised by the Nordic-African Institute (NAI), between 15-19 June, 2011 in Uppsala, Sweden.**
- ✚ International Biennial Workshop Organised by African Economic Research Consortium (**AERC**) held between May 28 – 2 June, 2011 at the Safari Park Hotels, Nairobi, Kenya.

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